

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-01 INR-07 IO-10 NEA-10 NSAE-00 OPIC-06

SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01 OMB-01 PA-02

PRS-01 USIA-15 AGR-10 /108 W  
----- 045037

R 031634Z JUL 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 7825

INFO AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

UNCLAS SECTION 01 OF 02 OECD PARIS 17301

HONG KONG FOR REG FINATT

E.O. 11652: N/A

TAGS: EAID, KS

SUBJECT: EIGHTH CONSULTATIVE GROUP MEETING FOR KOREA,  
JULY 2-3

1. FOLLOWING IS PRESS RELEASE APPROVED BY KCG JULY 3.

2. QUOTE. A MEETING OF THE CONSULTATIVE GROUP ON  
DEVELOPMENT ASSISTANCE TO THE REPUBLIC OF KOREA WAS HELD  
IN PARIS ON JULY 2 AND 3, 1975, UNDER THE CHAIRMANSHIP  
OF THE WORLD BANK. ATTENDING THE MEETING WERE REPRESENTATIVES FROM AUSTRALIA, BELGIUM, THE REPUBLIC OF  
CHINA, FRANCE, GERMANY, ITALY, JAPAN, THE UNITED KINGDOM,  
THE UNITED STATES, THE ASIAN DEVELOPMENT BANK, THE INTERNATIONAL MONETARY FUND, THE UNITED NATIONS DEVELOPMENT  
PROGRAMME, AND THE DEVELOPMENT ASSISTANCE COMMITTEE OF  
THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT.  
THE KOREAN DELEGATION WAS LED BY THE DEPUTY PRIME  
MINISTER, HIS EXCELLENCY DUCK WOO NAM. THE DEPUTY PRIME  
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MINISTER MADE A STATEMENT OUTLINING KOREA'S ECONOMIC

PERFORMANCE IN 1974, THE PROSPECTS FOR 1975 AND ITS LONGER-TERM PLANS. THIS, TOGETHER WITH A REPORT ON FOREIGN CAPITAL INDUCEMENT AND INVESTMENT POLICY AND THE GUIDELINES FOR THE FOURTH FIVE-YEAR ECONOMIC DEVELOPMENT PLAN TABLED BY THE KOREAN DELEGATION, THE LAST CONSULTATION REPORT OF THE IMF, AND A RECENT ECONOMIC REPORT BY THE WORLD BANK, CONSTITUTED THE BASIS OF THE CONSULTATIVE GROUP'S DISCUSSIONS.

THE GROUP NOTED THAT THE IMPACT ON THE KOREAN ECONOMY OF THE ADVERSE INTERNATIONAL DEVELOPMENTS IN THE LAST EIGHTEEN MONTHS, NOTABLY THE SHARP DETERIORATION IN ITS TERMS OF TRADE AND THE PRONOUNCED DECLINE IN THE DEMAND FOR ITS EXPORTS, HAD BEEN SEVERE. THE SHARPLY INCREASED IMPORT PRICES OF FOOD-GRAINS AND FUEL ALONE HAD ADDED MORE THAN A BILLION DOLLARS TO KOREA'S IMPORT BILL IN 1974. AT THE SAME TIME, THE DEEP RECESSION IN THE UNITED STATES AND JAPAN, KOREA'S MAJOR TRADING PARTNERS, RESULTED IN A CONSIDERABLE SLOWING DOWN IN THE GROWTH OF KOREAN EXPORTS.

ALTHOUGH, AS IN MANY OTHER COUNTRIES, THIS COMBINATION OF ADVERSE FACTORS LED TO INTENSIFIED INFLATION, SLUGGISH ECONOMIC ACTIVITY AND PRESSURE ON THE BALANCE OF PAYMENTS, THE GOVERNMENT DEMONSTRATED ITS CAPACITY FOR CLOSELY MONITORING DOMESTIC AND INTERNATIONAL TRENDS, ADAPTING POLICY TO THE CHANGING CIRCUMSTANCES AND RAPIDLY IMPLEMENTING DECISIONS ONCE TAKEN. KOREA'S OUTSTANDING DEVELOPMENT PERFORMANCE OVER THE PAST DECADE HAS GIVEN IT A STRENGTHENED AND MORE RESILIENT ECONOMY, AND THE MOMENTUM GENERATED IN 1973, TOGETHER WITH THE MEASURES ADOPTED BY THE GOVERNMENT TO DEAL WITH THE DIFFICULTIES, ENABLED KOREA, DESPITE THE ADVERSE INTERNATIONAL DEVELOPMENTS, TO ATTAIN A RATE OF REAL GROWTH OF GNP OF

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AMCONSUL HONG KONG

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8 PERCENT IN 1974.

THERE REMAINS UNCERTAINTY ABOUT THE DURATION OF THE RECESSION IN WORLD ECONOMIC ACTIVITY. IT WAS GENERALLY FELT, HOWEVER, THAT, GIVEN THE INFLOW OF APPROPRIATE AMOUNTS OF CAPITAL, KOREA WOULD BE ABLE TO CONTINUE ITS ECONOMIC PROGRESS ALTHOUGH WITH A RATE OF GROWTH LOWER THAN THAT OF THE LAST SEVERAL YEARS. IT IS EXPECTED, FURTHERMORE, THAT WHEN A GENERAL RECOVERY OCCURS, KOREA WILL RESUME ITS HIGH GROWTH PATH.

THE DELEGATES AGREED THAT KOREA REQUIRED AND DESERVED THE CONTINUED SUPPORT OF THE CAPITAL-EXPORTING COUNTRIES AND INTERNATIONAL ORGANIZATIONS IN PURSUING ITS DEVELOPMENT OBJECTIVES. IT WAS NOTED THAT, IN VIEW OF KOREA'S SHORT-RUN DIFFICULTIES, A SUBSTANTIAL PART OF THE ASSISTANCE PROVIDED IN 1975 AND 1976 SHOULD BE IN QUICK-DISBURSING FORM. IT IS CURRENTLY ESTIMATED THAT COMMITMENTS OF MEDIUM- AND LONG-TERM LOANS OF THE ORDER OF UNCLASSIFIED

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OVER \$2.0 BILLION WOULD BE NEEDED ANNUALLY IN THE NEXT FEW YEARS, IN ORDER TO FINANCE KOREA'S DEVELOPMENT PROGRAMS AND TO MAINTAIN ITS MOMENTUM OF GROWTH. GIVEN THE STRONG POSSIBILITY THAT KOREA'S EXPORT GROWTH WILL REMAIN SATISFACTORY, THE SERVICING OF THE SUBSTANTIAL VOLUME OF BORROWING THAT WOULD BE REQUIRED SHOULD NOT POSE A SERIOUS PROBLEM, PROVIDED THAT A SIGNIFICANT PROPORTION IS FROM OFFICIAL AND SEMI-OFFICIAL SOURCES ON MORE FAVORABLE TERMS THAN ARE GENERALLY AVAILABLE TODAY FROM PRIVATE FINANCIAL SOURCES. ALTHOUGH THE KOREAN AUTHORITIES HAD EXPECTED EARLIER THAT THEY WOULD BE ABLE TO RELY INCREASINGLY ON CAPITAL INFLOWS FROM

COMMERCIAL SOURCES, IT WAS NOTED THAT THE RECENT INTERNATIONAL ECONOMIC DEVELOPMENTS NECESSITATE A CONTINUATION OF SUBSTANTIAL OFFICIAL AND SEMI-OFFICIAL ASSISTANCE FOR THE REST OF THE DECADE.

IT WAS PROVISIONALLY AGREED THAT THE CONSULTATIVE GROUP SHOULD MEET AGAIN IN ABOUT FEBRUARY, 1977. END QUOTE.  
TURNER

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